

**REPORT OF THE AUDIT OF THE  
LESLIE COUNTY  
SHERIFF'S SETTLEMENT - 2003 TAXES**

**November 24, 2004**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE 502.573.0050  
FACSIMILE 502.573.0067**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Kenneth Witt, Leslie County Judge/Executive  
Honorable John Morgan, Leslie County Sheriff  
Members of the Leslie County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Leslie County Sheriff's Settlement - 2003 Taxes as of November 24, 2004.

We engaged Ross & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Leslie County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen  
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE  
LESLIE COUNTY  
SHERIFF'S SETTLEMENT - 2003 TAXES**

**November 24, 2004**

**ROSS & COMPANY, PLLC**  
**Certified Public Accountants**  
800 Envoy Circle  
Louisville, KY  
Telephone (502) 499-9088  
Facsimile (502) 499-9132



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**LESLIE COUNTY**  
**SHERIFF'S SETTLEMENT - 2003 TAXES**

**November 24, 2004**

Ross & Company, PLLC has completed the audit of the Sheriff's Settlement - 2003 Taxes for Leslie County Sheriff as of November 24, 2004. We have issued a qualified opinion on the financial statement taken as a whole.

**Financial Condition:**

The Sheriff collected taxes of \$2,898,398 for the districts for 2003 taxes, retaining commissions of \$120,757 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,286,543 to the districts for 2003 Taxes. Taxes of \$489,420 are due to the districts from the Sheriff. The Sheriff did not maintain adequate accounting records for the add-on fees, advertising costs and advertising fees collected by the Sheriff during the 2003 tax collection period. Monthly reports for oil, gas and unmined coal tax collections were not prepared during the months of August through October of 2004.

**Report Comments:**

- The County Sheriff Should Distribute Additional Amounts Due To Others
- The County Sheriff Should Prepare Accurate And Timely Tax Reports
- The County Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The County Sheriff Should Implement Proper Accounting Procedures And Maintain Proper Accounting Records
- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The County Sheriff's deposits were insured and collateralized by bank securities or bonds.





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**Certified Public Accountants**  
800 Envoy Circle  
Louisville, KY  
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Members of the Leslie County Fiscal Court

Independent Auditor's Report

We have audited the Leslie County Sheriff's Settlement - 2003 Taxes as of November 24, 2004. This tax settlement is the responsibility of the Leslie County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Leslie County Sheriff's taxes charged, credited, and paid as of November 24, 2004, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated April 14, 2005, on our consideration of Leslie County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Kenneth Witt, Leslie County Judge/Executive  
Honorable John Morgan, Leslie County Sheriff  
Members of the Leslie County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Sheriff Should Distribute Additional Amounts Due To Others
- The County Sheriff Should Prepare Accurate And Timely Reports
- The County Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The County Sheriff Should Implement Proper Accounting Procedures And Maintain Proper Accounting Records
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -  
April 14, 2005

LESLIE COUNTY  
JOHN MORGAN, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2003 TAXES

November 24, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 275,469	\$ 351,813	\$ 614,748	\$ 206,991
Tangible Personal Property	55,116	91,234	149,698	160,801
Intangible Personal Property				10,121
Fire Protection	5,438			
Franchise Corporation	51,985	83,156	137,669	
Additional Billings	10,591	17,295	28,541	27,854
Unmined Coal - 2003 Taxes	120,484	149,878	268,882	90,427
Oil and Gas Property Taxes	67,157	83,624	149,871	50,463
Penalties	5,786	7,240	12,861	4,475
Adjusted to Sheriff's Receipt	123	319	556	241
Gross Chargeable to Sheriff	<u>\$ 592,149</u>	<u>\$ 784,559</u>	<u>\$ 1,362,826</u>	<u>\$ 551,373</u>
<u>Credits</u>				
Exonerations	\$ 21,085	\$ 26,266	\$ 47,066	\$ 15,900
Discounts	6,724	8,752	15,064	7,469
Delinquents	<u>44,501</u>	<u>57,002</u>	<u>100,530</u>	<u>42,150</u>
Total Credits	<u>\$ 72,310</u>	<u>\$ 92,020</u>	<u>\$ 162,660</u>	<u>\$ 65,519</u>
Taxes Collected	\$ 519,839	\$ 692,539	\$ 1,200,166	\$ 485,854
Less: Commissions *	<u>22,381</u>	<u>29,433</u>	<u>48,007</u>	<u>20,936</u>
Taxes Due	\$ 497,458	\$ 663,106	\$ 1,152,159	\$ 464,918
Taxes Paid	431,533	493,019	980,193	431,457
Commissions Refunded from School			49,659	
Refunds (Current and Prior Year)	<u>332</u>	<u>364</u>	<u>743</u>	<u>239</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 65,593</u>	<u>\$ 169,723</u>	<u>\$ 220,882</u>	<u>\$ 33,222</u>

\* and \*\* See Next Page

The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY  
JOHN MORGAN, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2003 TAXES  
November 24, 2004  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	1,688,232
4% on	\$	1,200,166

\*\* Special Taxing Districts:

Library District	\$	94,606
Health District		15,915
Extension District		42,602
Soil Conservation District		15,290
Hyden District		<u>1,310</u>
Due Districts or (Refunds Due Sheriff)	\$	<u><u>169,723</u></u>

LESLIE COUNTY  
NOTES TO FINANCIAL STATEMENT

November 24, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of November 24, 2004, the Sheriff's deposits were fully insured at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

LESLIE COUNTY  
NOTES TO FINANCIAL STATEMENT  
November 24, 2004  
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was May 1, 2004 through October 5, 2004.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2003. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 23, 2004 through October 5, 2004.

Note 4. Interest Income

The Leslie County Sheriff earned \$1,748 as interest income on 2003 taxes. As of April 14, 2005, the Sheriff owed \$695 in interest to the school district and \$1,053 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Leslie County Sheriff collected \$17,442 of 10% add-on fees allowed by KRS 134.430(3). As of April 14, 2005, the Sheriff owed \$17,442 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Leslie County Sheriff collected \$6,577 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of April 14, 2005, the Sheriff owed \$6,577 in advertising costs and advertising fees to the county and his fee account respectfully.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.090, effective through June 23, 2003, property is presumed abandoned after seven years, after which time it is to be turned over to the Kentucky State Treasurer. After KRS 393.090 was amended, effective June 24, 2003, property is presumed abandoned after three years, after which time it is to be turned over to the Kentucky State Treasurer, in accordance with KRS 393.110. For the 2003 taxes, the Sheriff had \$2,366 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.



## COMMENTS AND RECOMMENDATIONS



LESLIE COUNTY  
JOHN MORGAN, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

November 24, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Should Distribute Additional Amounts Due To Others

Based upon test procedures, our audit reflects the following amounts due others for the 2003 taxes:

Amounts To Be Paid To Others

Other Taxing Districts-	
State	\$ 35,422
County	64,215
School	217,851
Library	93,835
Health	15,617
Extension	42,115
Soil Conservation	15,186
Hyden	1,309
Tax Commissions Due Sheriff's Fee Account	16,818
Interest Due Sheriff's Fee Account	1,053
Interest Due School	695
Advertising Costs due Fee Account	6,577
Add-on Fees due Fee Account	<u>17,442</u>
Amounts To Be Paid To Others	<u><u>528,135</u></u>

We recommend that the sheriff pay the additional amounts due others.

*Sheriff's Response:*

*I will comply in a timely manner.*

The County Sheriff Should Prepare Accurate And Timely Tax Reports

The Sheriff did not prepare timely and accurate monthly reports for 2003 tax collections. The results of the additional procedures performed revealed penalties had been overstated due to problems associated with the way monthly reports were processed through the computer system. In addition, we found that the sheriff did not prepare timely monthly reports for tax collections. KRS 134.300 requires monthly tax reports to be accurate and payments be made by the tenth of each month following the collection of taxes. In an effort to strengthen internal controls over tax reporting, we recommend that the sheriff perform a monthly reconciliation between the batched tax bills, deposits and monthly reports. Any variances noted should be reconciled immediately and be performed by the tenth of each month. Furthermore, we recommend that the sheriff implement the procedures immediately to strengthen internal controls over tax reporting

LESLIE COUNTY  
JOHN MORGAN, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
November 24, 2004  
(Continued)

STATE LAWS AND REGULATIONS:

The County Sheriff Should Prepare Accurate And Timely Tax Reports (Continued)

*Sheriff's Response:*

*The SACS computer systems computed incorrectly making our monthly records and payment wrong. We have stopped using the SACS system. We now use Dependable Data in London, Kentucky so we can solve the problem.*

The Sheriff Should Prepare An Accurate Settlement

The sheriff's settlement for the 2003 taxes was not accurate. There were several categories that were incorrectly stated. KRS 134.325 requires the sheriff to make settlement with the Revenue Cabinet for all taxes collected for the Commonwealth. We recommend that the sheriff prepare an accurate settlement and maintain supporting documentation for all amounts reflected on the annual settlement.

*Sheriff's Response: We agree the taxes were not accurate. We have taken steps to resolve the problems.*

The County Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. During 2003 tax collections, Sheriff John Morgan earned interest of \$1,748 on his tax account. However, Sheriff John Morgan did not pay the interest to the Board of Education or the fee account on a monthly basis. As of November 24, 2004, Sheriff John Morgan owed the Leslie County Board of Education \$695 and the fee account \$1,053. We recommend the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and fee account on a monthly basis.

*Sheriff's Response:*

*None.*

The County Sheriff Should Implement Proper Accounting Procedures And Maintain Proper Accounting Records

The Sheriff did not follow proper accounting procedures or maintain proper accounting records as evidenced by the following deficiencies:

- Reports and distribution of moneys collected by the office were not prepared and disbursed in a timely matter.

LESLIE COUNTY  
JOHN MORGAN, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
November 24, 2004  
(Continued)

STATE LAWS AND REGULATIONS:

The County Sheriff Should Implement Proper Accounting Procedures And Maintain Proper Accounting Records (Continued)

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- Records were not maintained for the collections of add-on fees, advertising fees and advertising costs.
- Disbursements ledgers were not maintained.

*Sheriff's Response:*

*None.*

INTERNAL CONTROL – REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should compare the monthly tax reports to the receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the monthly tax reports.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response:*

*None.*

PRIOR YEAR:

- The Sheriff Should Collect Refunds Due To Tax Account and Distribute Additional Amounts Due To Others
- The Sheriff Should Prepare Accurate And Timely Tax Reports
- The Sheriff Should Prepare An Accurate Settlement
- The Sheriff Should Invest Funds In An Interest-Bearing Account
- The Sheriff Lacks Adequate Segregation of Duties

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





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**Certified Public Accountants**  
800 Envoy Circle  
Louisville, KY  
Telephone (502) 499-9088  
Facsimile (502) 499-9132

The Honorable Kenneth Witt, Leslie County Judge/Executive  
The Honorable John Morgan, Leslie County Sheriff  
Members of the Leslie County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Leslie County Sheriff's Settlement - 2003 Taxes as of November 24, 2004, and have issued our report thereon dated April 14, 2005. The Leslie County Sheriff prepares his tax settlement in accordance with the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Leslie County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A Reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

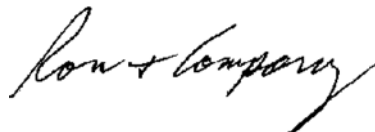
Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Leslie County Sheriff's Settlement - 2003 Taxes as of November 24, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Sheriff Should Distribute Additional Amounts Due To Others
- The County Sheriff Should Prepare Accurate And Timely Reports
- The County Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The County Sheriff Should Implement Proper Accounting Procedures And Maintain Proper Accounting Records

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC

Audit fieldwork completed -  
April 14, 2005

